



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION 8**

1595 Wynkoop Street
DENVER, CO 80202-1129
Phone 800-227-8917
<http://www.epa.gov/region08>

5/16/2023

Mr. Michael Grange, P.E.
Infrastructure Funding Section Manager
Utah Division of Drinking Water
PO Box 144830
Salt Lake City, UT 84114-4820

Dear Mr. Grange,

The U.S. Environmental Protection Agency, Region 8, has conducted an annual review of the Utah Drinking Water State Revolving Fund (DWSRF) for State Fiscal Year 2022 (July 1, 2021 through June 30, 2022) in accordance with the EPA's SRF Annual Review Guidance.

The grantee has been and remains the Division of Drinking Water (Division) in the Utah Department of Environmental Quality (UTDEQ). Duties include developing the Intended Use Plan (IUP) and Project Priority List, as well as serving as project managers that work with communities on planning, design, financing, and construction of projects. The required 20 percent state match is provided by state sales tax revenue that is initially deposited into Utah's "state" loan fund and transferred into the DWSRF as match when needed. DWSRF assistance is currently provided to publicly-owned or privately-owned water systems with a variable "effective" interest rate based on several factors including: cost effectiveness ratio, funding from other sources, local median adjusted gross income, applicant's financial contribution, applicant's ability to repay the loan, debt load, growth, and other similar factors. The amount of principal forgiveness and the "effective" interest rate may be reduced based on the applicant's ability to repay the loan. The Division will either charge true interest, a hardship assessment fee, or a technical assistance fee.

The scope of the annual review includes consideration of the technical, financial, and operational capabilities and performance of UTDEQ in administering its DWSRF. EPA conducted its first in-person review at the state offices in Salt Lake City, UT since COVID began. The review occurred Tuesday, February 14, 2023 - Wednesday, February 15, 2023, which included meeting with the SRF program manager and financial staff to discuss operation of its DWSRF. Activities incorporated into the annual review were an analysis of the FY22 and FY23 IUPs, files for the Moroni City and Genola City projects, unaudited financial statements, Utah DWSRF financial indicators, and the following four cash draws:

FS998784-21; \$2,604,889.17; October 7, 2021
FS998784-21; \$292,147.60; May 6, 2022
FS998784-20; \$582,648.42; September 9, 2021
FS998784-20; \$244,226.03; January 7, 2022

Observations

The Division manages its DWSRF program in accordance with applicable statutes and regulations. Overall, the Utah DWSRF is well-integrated with the state's drinking water program. The Utah DWSRF is managed in conjunction with the "state" loan fund and hardship grant program to optimize funding packages for utilities and address drinking water priorities of the state. Project files were found to be in good order, and the Division works closely with Utah communities to provide good project management for drinking water projects.

The state funded \$15.2 million in projects from its DWSRF in 2022. From these projects \$2.3 million for planning and design, \$0.4 million for treatments, \$5.1 million was used for transmission/distribution lines, \$2.1 million was used for source water, \$4.2 million was used for storage, \$55k for land acquisition, and \$1.1 million for other uses.

Unliquidated Obligations

The Utah DWSRF currently (as of March 31, 2023) has approximately \$51.5 million in ULOs, which equals an 83 percent federal outlay expenditure rate, which is expected due to the recent funding of the three Bipartisan Infrastructure Law (BIL) grants at the end of FY22. UT has nearly spent their Base FY21 grant and has already spent over three quarters of the Base FY22 grant. The state has already started spending the general supplemental BIL grant and will soon begin spending the BIL lead service line grant and the BIL emerging contaminant grant funds. As the state progresses on funding more BIL projects, these numbers will begin to improve.

Green Project Reserve, Additional Subsidy and Equivalency

The Utah Drinking Water Division has excelled in meeting green project reserve several years ago, which currently remains an optional program.

Additional subsidy requirements were met in a timely manner through FY19 grant and the state is making progress toward the additional subsidy requirement for the FY20 grant. The FY21 grant requirement is already met. For equivalency, the state has reported projects to meet all grants through the FY21 grant.

DWSRF Project Progress

The DWSRF is summarized below as of June 30, 2022. The first table presents loan fund information and pace of construction, and the second table shows set-aside spending status.

TABLE I: DWSRF Program Summary June 30, 2022 (\$ Millions)

DWSRF Funds Available for Projects	Project Assistance	Fund Use Rate	Project Disbursements	Pace of Construction
\$400.2	\$351.6	88%	\$316.1	90%

TABLE II: DWSRF Set-Aside Summary June 30, 2022 (\$ Millions)

Set-Aside	Set-Aside Amount	Set-Aside Amount Expended	% of Set-Aside Expended
Administrative	\$9.0	\$8.8	97%
Small System TA	\$5.4	\$4.4	81%
State Program	\$23.4	\$22.8	98%
Local Asst.	\$13.9	\$13.9	100%
TOTALS	\$51.8	\$49.9	96%

In FY22, the Utah DWSRF funded \$15.2 million in new drinking water projects and its *fund use rate* decreased slightly from 89 percent to 88 percent. The uncommitted 12 percent was \$48.5 million, which is expected due to the substantial increase in the amount of grant funds awarded in FY22 due to the funding of BIL. Overall, the project demand remains strong for base funding and the additional project funds the state will continue to receive as a part of BIL.

Construction expenses totaled \$23.3 million in FY22, and the Utah *DWSRF pace of construction* (disbursements divided by total project amounts) increased from 87 to 90 percent, an expected result as some of the larger projects move into construction. In FY22, Utah's DWSRF cumulative *Federal Return* (construction disbursements divided by the sum of loan fund and administration cash draws) slightly increased from 1.50 to 1.54.

A key component of strategic SRF fund management is the balancing of cash inflows and outflows. The following ratio shows how efficiently Utah's DWSRF is revolving by examining the program's disbursement rate over a set time-period and comparing it to the amount of cash on hand. The ratio is calculated by subtracting total project disbursements (\$316.1 million) from total funds available (\$400.3 million) and comparing this number (\$84.2 million) to the average annual disbursements over the past three years (\$24.6 million). For the Utah DWSRF, this ratio is 3.42 (years), which continues to decrease from 4.10 last year and a substantial decrease from the ratio 7.74 in FY20.

Utah DWSRF project milestone accomplishments from the National Information Management System (NIMS) are as follows (in \$ Millions).

- DWSRF Funds Available: \$400.2
- Project Assistance: 179 projects at \$351.6
- Construction Starts: 175 projects at \$351.3
- Project Completions: 156 projects at \$256.0

While new project funding has lagged in recent years, programmatic financing seems to have piqued the interest of some larger communities, previously uninterested in the SRF program. The state is working with a few interested communities, but they are no longer marketing the programmatic financing to new borrowers currently. They instead intend to focus their outreach more on smaller communities. The Utah DWSRF is still completing projects in a timely manner and ultimately achieving the goal of protecting human health.

Financial Sustainability

Based on information from the SRF Data System the DWSRF had a cumulative *Net Return* of \$31.0 million, an increase of \$1.4 million. The *Net Return on Contributed DWSRF Capital* (contributed capital being the sum of federal outlays for loan fund and deposited state match) remains steady at 12.8 percent. These calculations do not incorporate the fee amounts the state collects on SRF assistance which are used for Safe Drinking Water Act-related purposes.

Financial Management and Proportionality

All four cash draws previously listed were for eligible uses and at the correct federal proportion of 100 percent.

The DWSRF shows sound financial health and management. There have been no defaults and all loans are secured by revenues from user charges and/or full faith and credit of the borrowing entities. The total assets as of June 30, 2022 was \$224.6 million, a five percent increase over the FY21 net position of \$214.6 million.

For the year ending June 30, 2022, the UT DEQ did not have an independent financial statement and compliance audit for the DWSRF. Currently, the Division does not have a separate financial statement and compliance audit conducted of its DWSRF program. While this is not required by SRF regulations, Region 8 recommends that this type of audit be performed annually. On a related topic, on March 17, 2023 the Utah Auditor completed its report required by the Single Audit Act and OMB Circular A-133. The report did not include any compliance findings, questioned costs, or recommendations for the Utah DWSRF.

Set-Aside Use and DWSRF-PWSS Integration

The Utah Drinking Water Division sets aside its DWSRF grant for a wide range of effective uses in its drinking water program. By March 31, 2022, the *set-aside spending rate* was 90 percent, a good result especially given the substantial increase in set-asides due to the funding of the additional BIL grants.

The Utah DWSRF is located within the Division of Drinking Water, and it's apparent that there is good coordination between the DWSRF staff and the overall Drinking Water Program staff.

Prior Recommendations

1. The Division does not have a separate financial statement and compliance audit conducted of its DWSRF program. While this is not required by SRF regulations, the EPA, Region 8, recommends that this type of audit be performed annually.

Resolution: Region 8 will continue recommending a separate financial statement and compliance audit for its DWSRF.

New Recommendations

There are no new recommendations at this time.

Sincerely,

Benjamin Bents
Manager
Technical and Financial Services Branch

cc: Jeremy Andrews, Administrative Services Manager
Wayne Boyce, Financial Manager